

DEEP RIVER TOWNSHIP
ARENAC COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
YEARS ENDED JUNE 30, 2007 and 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Deep River Township	County Arenac
Fiscal Year End June 30, 2007	Opinion Date December 5, 2007	Date Audit Report Submitted to State December 20, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

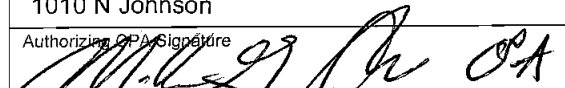
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Quast, Janke & Company, CPA's, PC		Telephone Number 989-892-4549	
Street Address 1010 N Johnson		City Bay City	State MI
Zip 48708			
Authorizing CPA Signature 		Printed Name Mark G Janke, CPA	License Number A 248798

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Quast, Janke and Company, P.C.
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REPORT LETTER

December 5, 2007

To The Township Board
Deep River Township
Arenac County
Sterling, Michigan 48659

We have audited the accompanying financial statements of the Government Activities, each major fund, and the aggregate remaining fund information of the Deep River Township as of and for the year ended June 30, 2007 and 2006, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of the Deep River Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government Activities, each major fund, and aggregate remaining fund information of the Deep River Township as of June 30, 2007 and 2006, and the respective changes in financial position for the year then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 through 22 are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To The Township Board
Deep River Township
December 5, 2007
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Deep River Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY


Certified Public Accountants, P.C.

Deep River Township

Management's Discussion and Analysis

This section of Deep River Township's Annual Financial Report presents our discussion and analysis of the Township's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Township's financial statements, which immediately follows this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Deep River Township financially as a whole. The government-wide Financial Statements provide information about the activities of Deep River Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds – the General Fund, Road Fund, Cemetery Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent.

Management's Discussion and Analysis (MD &A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the Township as a Whole – Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Deep River Township

Management's Discussion and Analysis

These two statements report the Township's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to our residents, not to generate profits as commercial entities do. The statements of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including legislative, general government, public safety, public works and culture and recreation. Property taxes, special assessments, and unrestricted State shared revenue finance most of these activities.

Reporting the Township's Most Significant Funds – Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law. However, the Township establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

Governmental funds – All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The Township as a Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table 1 provides a summary of the Township's net assets as of June 30, 2007 and 2006:

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 364,973	\$ 302,691
Capital assets – Net of accumulated depreciation	<u>251,615</u>	<u>271,505</u>
Total assets	616,588	574,196
Liabilities		
Current liabilities	<u>23,971</u>	<u>13,244</u>
Net Assets		
Invested in property and equipment	251,615	271,505
Restricted	58,947	46,606
Unrestricted	<u>282,055</u>	<u>242,841</u>
Total net assets	<u>\$ 592,617</u>	<u>\$ 560,952</u>

Deep River Township

Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. The Township's net assets were \$592,617 at June 30, 2007. Capital assets reflects the original cost, less depreciation of the Township's capital assets. The remaining amount of net assets \$282,055 was unrestricted.

The \$282,055 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007 and 2006.

TABLE 2:

	Governmental Activities	
	June 30,	
	2007	2006
Revenue		
Program revenue:		
Charges for services	\$ 7,325	\$ 7,450
Grants, contributions and other	2,500	0
General revenue:		
Property taxes	65,973	59,212
Special voted taxes	48,759	46,606
State shared revenue	117,976	125,479
Other	<u>22,616</u>	<u>34,069</u>
Total revenue	265,149	272,816
Function/Program Expenses		
Legislative	42,750	30,557
General Government	113,491	113,607
Public Safety	20,584	34,892
Public Works	55,126	63,097
Cultural and Recreation	1,533	2,544
Interest on Long-Term Debt	<u>-</u>	<u>290</u>
Total expenses	<u>233,484</u>	<u>244,987</u>
Increase in Net Assets	<u>\$ 31,665</u>	<u>\$ 27,829</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$233,484. Certain activities were partially funded from those who benefitted from the program or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$114,732 in taxes, \$113,491 in State shared revenue, and with our other revenues, such as interest and other.

The Township experienced an increase in net assets of \$31,665. The increase in net assets differs from the change in fund balance and reconciliation appears on page 14.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State shared revenues constitute the majority of Township operating revenue sources, the Board of Trustees must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

Deep River Township

Management's Discussion and Analysis

The Township's Funds

As we noted earlier, the Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$341,002, which is an increase of \$51,555 from last year. The General Fund, our principal operating fund, the balance increased \$42,982. Overall, actual General Fund revenues were within .3% of budgeted amounts, and expenditures were within 1.27% of budgeted amounts.

The Road Fund fund balance increased \$12,341.

Budgetary Highlights

Over the course of the year, the Township revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the original budgets were as follows:

All Budgeted Funds -

- There were only minor minimal increases in budgeted expenditures, if any.
- There were no significant variances between the final budget and actual costs.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the Township had \$558,331 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$1,550.

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 88,502	\$ 88,502
Buildings and improvements	222,674	222,674
Vehicles	162,892	162,892
Equipment	<u>84,263</u>	<u>82,713</u>
Total capital assets	558,331	556,781
Less accumulated depreciation	<u>306,716</u>	<u>285,276</u>
Net capital assets	<u>\$ 251,615</u>	<u>\$ 271,505</u>

This year's additions of \$1,550 consisted of file cabinets.

Deep River Township

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials consider many factors when setting the Township's 2008 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. This resulted in a \$7,503 decrease in State shared revenues in the year ended June 30, 2007, and cuts may be forthcoming in 2008.

Contacting the Township's Financial Management

This financial report is designed to provide the Township's citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deep River Township, 511 State St, Sterling, MI 48659.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF NET ASSETS
June 30, 2007 and 2006

	Totals June 30,	
	2007	2006
ASSETS:		
Cash	\$ 333,591	\$ 271,906
Other receivables	723	3,628
Due from State	18,360	17,551
Due from other funds	11,364	9,606
Prepaid expense	935	0
Capital assets	558,331	556,781
Accumulated depreciation	(306,716)	(285,276)
Total Assets	616,588	574,196
LIABILITIES:		
Accounts payable and other liabilities	23,971	13,244
NET ASSETS:		
Investment in capital assets net of related debt (None)	251,615	271,505
Restricted	58,947	46,606
Unrestricted	282,055	242,841
Total Net Assets	\$ 592,617	\$ 560,952

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007 and 2006

	Program Revenues			Governmental Activities	
	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expenses), Revenues and Changes in Net Assets	
				Year Ended June 30, 2007	2006
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 42,750	\$ 0	\$ 0	\$ (42,750)	\$ (30,557)
General Government	113,491	7,325	2,500	(103,666)	(106,157)
Public Safety -					
Fire	12,477	0	0	(12,477)	(22,643)
Other	8,107	0	0	(8,107)	(12,249)
Public Works	55,126	0	0	(55,126)	(63,097)
Culture and Recreation -	1,533	0	0	(1,533)	(2,544)
Interest on long-term debt	0	0	0	0	(290)
Total Governmental Activities	\$ 233,484	\$ 7,325	\$ 2,500	(223,659)	(237,537)
GENERAL PURPOSE REVENUES:					
Property taxes -					
General Levy				65,973	59,212
Special Voted - Roads				48,759	46,606
State shared revenues				117,976	125,479
Investment earnings				12,844	8,906
Other				9,772	25,163
Total General Purpose Revenues				255,324	265,366
Change in Net Assets				31,665	27,829
Net Assets - Beginning of Year				560,952	533,123
Net Assets - End of Year				\$ 592,617	\$ 560,952

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2007 and 2006

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS
ASSETS:			
Cash in bank	\$ 257,455	\$ 69,138	\$ 6,998
Accounts receivable	723	0	0
Due from State	18,360	0	0
Due from other Funds	11,364	0	0
Prepaid expense	935	0	0
TOTAL ASSETS	\$ 288,837	\$ 69,138	\$ 6,998
LIABILITIES:			
Accounts payable	\$ 4,691	\$ 10,191	\$ 16
Accrued salaries & wages	4,277	0	0
Payroll taxes	1,503	0	0
Due to other funds	0	0	2,848
Other liabilities	400	0	45
TOTAL LIABILITIES	10,871	10,191	2,909
FUND EQUITY:			
Reserved	0	58,947	0
Unreserved	277,966	0	4,089
TOTAL FUND EQUITY	277,966	58,947	4,089
TOTAL LIABILITIES AND FUND EQUITY	\$ 288,837	\$ 69,138	\$ 6,998

The accompanying notes are an integral part of the financial statements.

Totals June 30,	
2007	2006
\$ 333,591	\$ 270,307
723	3,278
18,360	17,551
11,364	9,606
935	0
<u>\$ 364,973</u>	<u>\$ 300,742</u>
\$ 14,898	\$ 5,487
4,277	4,571
1,503	1,746
2,848	2,848
445	350
<u>23,971</u>	<u>15,002</u>
58,947	46,606
<u>282,055</u>	<u>242,841</u>
<u>341,002</u>	<u>289,447</u>
<u>\$ 364,973</u>	<u>\$ 304,449</u>

DEEP RIVER TOWNSHIP

Arenac County, Michigan

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	341,002
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Amounts reported for governmental activities in the statement
of net assets are different because -

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Capital assets at cost	558,331
Accumulated depreciation	<u>(306,716)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>592,617</u></u>
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The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2007 and 2006

	GENERAL	ROAD	OTHER NONMAJOR GOVERNMENTAL FUNDS	Year Ended June 30,	
				2007	2006
REVENUES:					
Taxes	\$ 65,973	\$ 48,759	\$ 0	\$ 114,732	\$ 105,818
Licenses & Permits	4,822	0	0	4,822	8,615
State Grants	117,976	0	0	117,976	125,479
Contributions from Local Units	0	0	2,500	2,500	12,166
Charges for Services	0	0	7,325	7,325	7,450
Interest and Rentals	12,830	0	14	12,844	8,906
Other Revenue	4,950	0	0	4,950	4,382
Total Revenues	206,551	48,759	9,839	265,149	272,816
EXPENDITURES:					
Legislative	42,750	0	0	42,750	30,557
General Government	91,002	0	16,107	107,109	106,423
Public Safety	8,107	0	0	8,107	12,249
Public Works	18,708	36,418	0	55,126	63,097
Cultural and Recreation	502	0	0	502	1,513
Debt Service	0	0	0	0	9,666
Total Expenditures	161,069	36,418	16,107	213,594	223,505
EXCESS OF REVENUES OVER EXPENDITURES	45,482	12,341	(6,268)	51,555	49,311
OTHER FINANCING SOURCES (USES):					
Transfer from other funds	0	0	2,500	2,500	2,500
Transfer to other funds	(2,500)	0	0	(2,500)	(2,500)
Total Other Financing Sources (Uses)	(2,500)	0	2,500	0	0
NET CHANGE IN FUND BALANCES	42,982	12,341	(3,768)	51,555	49,311
FUND BALANCE - Beginning of Year	234,984	46,606	7,857	289,447	240,136
FUND BALANCE - End of Year	\$ 277,966	\$ 58,947	\$ 4,089	\$ 341,002	\$ 289,447

The accompanying notes are an integral part of the financial statements.
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DEEP RIVER TOWNSHIP
Arenac County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	51,555
Amounts reported for governmental activities in the statement of activities are different because -		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated lives as depreciation:		
Depreciation expense		(21,439)
Capital outlay		1,550
Rounding		<u>(1)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>31,665</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
Arenac County, Michigan

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2007 and 2006

	Trust & Agency	Current Tax Collections	Totals June 30,	
			2007	2006
ASSETS:				
Cash in bank	\$ <u>7,435</u>	\$ <u>1,081</u>	\$ <u>8,516</u>	\$ <u>8,516</u>
LIABILITIES:				
Due to General Fund	\$ <u>7,435</u>	\$ <u>1,081</u>	\$ <u>8,516</u>	\$ <u>8,516</u>

The accompanying notes are an integral part of the financial statements.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Deep River Township is located in Arenac County and operated under an elected Board of Trustees (5 members) and provides services to its residents in many areas. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY:

In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB No. 14. The basic - but not the only - criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes taxes and unrestricted State aid.

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fiduciary Fund statements are also reported using the economic resources measurement focus and the modified accrual basis of accounting.

The Township reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Road Fund - The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

Assets, Liabilities, and Net Assets or Equity

Deposits - Cash and cash equivalents include cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both entity-wide and fund financial statements.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide statements since no township employees are provided with sick or vacation pay benefits.

Long term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. There are no long-term liabilities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Fund Deficits - The Township had no accumulated fund balance deficits.

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS :

Deposits of the Township are carried at cost and maintained at Citizens Bank, Independent Bank and Chemical Bank, federally insured banks.

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Township's deposits are in accordance with statutory authority.

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	\$ 333,591	\$ 8,516	\$ 342,107

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity's name). Bank deposits including certificates of deposit:

	<u>Primary Government</u>
Category 1.	\$ 142,839
Category 2.	-
Category 3.	<u>199,268</u>
Total Bank Balances	<u>\$ 342,107</u>
Carrying Amount	<u>\$ 342,107</u>

DEEP RIVER TOWNSHIP
ARENAC COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4 CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Land and improvements	\$ 88,502	\$ -	\$ -	\$ 88,502
Buildings and improvements	222,674	-	-	222,674
Vehicles	162,892	-	-	162,892
Equipment	<u>82,713</u>	<u>1,550</u>	<u>-</u>	<u>84,263</u>
Total Capital Assets	556,781	1,550	-	558,331
Accumulated Depreciation				
Land and improvements	7,020	1,344	-	8,364
Buildings and improvements	63,202	3,903	-	67,105
Vehicles	150,414	12,478	-	162,892
Equipment	<u>64,640</u>	<u>3,715</u>	<u>-</u>	<u>68,355</u>
Total Accumulated Depreciation	<u>285,276</u>	<u>21,440</u>	<u>-</u>	<u>306,716</u>
Net Capital Assets	<u>\$ 271,505</u>	<u>\$ (19,890)</u>	<u>\$ -</u>	<u>\$ 251,615</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities	\$ 7,931
Public safety	12,478
Recreation and culture	<u>1,031</u>
Total government activities	<u>\$ 21,440</u>

NOTE 5. RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, errors, omissions, employee injuries, and workman's compensation benefits.

The Township has purchased commercial insurance for general liability, errors and omissions, physical damage for equipment, buildings and contents and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 1,081	Current Tax Collections	\$ 1,081
General Fund	2,848	Cemetery Fund	2,848
General Fund	<u>7,435</u>	Trust and Agency	<u>7,435</u>
	<u>\$ 11,364</u>		<u>\$ 11,364</u>

DEEP RIVER TOWNSHIP
ARENAC County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued):

Operating transfers during the year:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 2,500
Cemetery Fund	<u>2,500</u>	<u>-</u>
	<u>\$ 2,500</u>	<u>\$ 2,500</u>

Transfers are used to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7. PENSION PLAN:

Deep River Township has a defined contribution plan for employees other than elected officials or part-time workers, through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the amount earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township's pension plan agreement specified which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account. Effective January 1, 2007, the Township contribution was reduced to 1% of annual compensation for elected officials and 7.5% for other covered employees.

REQUIRED SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP

Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Taxes	\$ 60,400	\$ 60,400	\$ 65,973
Licenses & Permits	7,440	7,440	4,822
State Grants	124,800	124,800	117,976
Interest and Rentals	8,319	8,319	12,830
Other Revenues	8,919	8,919	4,950
Total Revenues	200,959	200,959	206,551
EXPENDITURES:			
Legislative	35,300	43,000	42,750
General Government	97,340	91,840	91,002
Public Safety	12,800	9,800	8,107
Public Works	17,840	17,900	18,708
Cultural and Recreation	1,500	600	502
Total Expenditures	164,780	163,140	161,069
OTHER FINANCING SOURCES (USES):			
Transfer to other funds	2,500	2,500	2,500
NET CHANGE IN FUND BALANCE	33,679	35,319	42,982
FUND BALANCE - BEGINNING OF YEAR	234,984	234,984	234,984
FUND BALANCE - END OF YEAR	\$ 268,663	\$ 270,303	\$ 277,966

DEEP RIVER TOWNSHIP
Arenac County, Michigan

BUDGET COMPARISON SCHEDULE - ROAD FUND
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
REVENUES:			
Taxes	\$ 46,600	\$ 46,600	\$ 48,759
EXPENDITURES:			
Public Works	<u>82,500</u>	<u>82,500</u>	<u>36,418</u>
NET CHANGE IN FUND BALANCE	(35,900)	(35,900)	12,341
FUND BALANCE - BEGINNING OF YEAR	<u>46,606</u>	<u>46,606</u>	<u>46,606</u>
FUND BALANCE - END OF YEAR	\$ <u><u>10,706</u></u>	\$ <u><u>10,706</u></u>	\$ <u><u>58,947</u></u>

OTHER SUPPLEMENTAL INFORMATION

DEEP RIVER TOWNSHIP
Arenac County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007 and 2006

	Special Revenue Funds		Totals June 30,	
	Fire	Cemetery	2007	2006
<u>ASSETS</u>				
Cash in bank	\$ 0	\$ 6,998	\$ 6,998	\$ 8,597
Accounts receivable	0	0	0	350
	<u>\$ 0</u>	<u>\$ 6,998</u>	<u>\$ 6,998</u>	<u>\$ 8,947</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 0	\$ 16	\$ 16	\$ 0
Due to General Fund	0	2,848	2,848	1,090
Due to Other Gov't Units	0	45	45	0
Total Liabilities	0	2,909	2,909	1,090
Fund Balance	0	4,089	4,089	7,857
	<u>\$ 0</u>	<u>\$ 6,998</u>	<u>\$ 6,998</u>	<u>\$ 8,947</u>

DEEP RIVER TOWNSHIP
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Years Ended June 30, 2007 and 2006

	Special Revenue Funds		Totals	
	Fire	Cemetery	Year Ended June 30, 2007	2006
REVENUES:				
Contributions from Local Units	\$ 0	\$ 2,500	\$ 2,500	\$ 12,166
Charges for Services	0	7,325	7,325	7,450
Interest and Rentals	0	14	14	30
Total Revenues	0	9,839	9,839	19,646
EXPENDITURES:				
General Government	0	16,107	16,107	13,030
Debt Service	0	0	0	9,666
Total Expenditures	0	16,107	16,107	22,696
EXCESS OF REVENUES OVER EXPENDITURES	0	(6,268)	(6,268)	(3,050)
OTHER FINANCING SOURCES:				
Transfer from General Fund	0	2,500	2,500	2,500
NET CHANGE IN FUND BALANCE	0	(3,768)	(3,768)	(550)
FUND BALANCE - Beginning of Year	0	7,857	7,857	8,407
FUND BALANCE - End of Year	\$ 0	\$ 4,089	\$ 4,089	\$ 7,857

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2007 and 2006

	Year Ended June 30,	
	2007	2006
REVENUES:		
Taxes -		
Current tax levy	\$ 42,998	\$ 37,076
Swamp & Forest	1,375	1,375
Administration fees	21,600	20,761
Total Taxes	65,973	59,212
Licenses & Permits -		
Building Permits	4,822	8,615
State Grants -		
Sales tax	117,976	125,479
Interest and Rentals -		
Interest earned	9,279	5,018
Oil royalties	2,251	2,773
Rents	1,300	1,085
Total Interest and Rentals	12,830	8,876
Other Revenue - Miscellaneous	4,950	4,382
Total Revenues	206,551	206,564
EXPENDITURES	161,069	156,506
EXCESS OF REVENUES OVER EXPENDITURES	45,482	50,058
OTHER FINANCING SOURCES (USES):		
Transfer to Cemetery Fund	2,500	2,500
NET CHANGE IN FUND BALANCE	42,982	47,558
FUND BALANCE - Beginning of Year	234,984	187,426
FUND BALANCE - End of Year	\$ 277,966	\$ 234,984

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Year Ended June 30, 2007 and 2006

	Year Ended June 30,	
	2007	2006
EXPENDITURES:		
LEGISLATIVE:		
Township Board -		
Trustees' salaries	\$ 7,800	\$ 8,450
Legal & professional	2,750	2,650
Contract services	4,275	0
Membership dues	3,290	250
Printing and publishing	2,734	319
Retirement	2,546	0
Seminars and conventions	4,619	4,279
Travel	818	1,658
Supplies and other costs	2,724	3,119
Insurance	7,325	5,947
Payroll taxes	4,170	3,885
Total Legislative	43,051	30,557
GENERAL GOVERNMENT:		
Supervisor -		
Salary	7,800	8,450
Supplies and other costs	0	186
Total Supervisor	7,800	8,636
Elections -		
Wages	3,332	461
Supplies and other costs	1,404	149
Total Elections	4,736	610
Assessor -		
Contracted services	23,400	26,240
Supplies and other costs	1,021	1,478
Total Assessor	24,421	27,718
Clerk -		
Salary	12,000	12,688
Supplies and other costs	43	360
Total Clerk	12,043	13,048
Board of Review -		
Salaries	1,365	1,410

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2007 and 2006

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
EXPENDITURES (CONT.):		
GENERAL GOVERNMENT (CONT.):		
Treasurer -		
Salary	\$ 14,847	\$ 16,085
Deputy Treasurer	1,764	2,128
Supplies and other costs	6,868	5,875
	<hr/>	<hr/>
Total Treasurer	23,479	24,088
Township Hall -		
Salaries	375	0
Utilities	5,646	5,888
Telephone	1,308	1,185
Repairs and maintenance	7,978	9,152
Supplies and other costs	0	509
Capital Outlay	1,550	1,149
	<hr/>	<hr/>
Total Township Hall	16,857	17,883
	<hr/>	<hr/>
Total General Government	90,701	93,393
PUBLIC SAFETY:		
Building Inspector -		
Salary	4,816	7,081
Supplies and other costs	754	718
	<hr/>	<hr/>
Total Building Inspector	5,570	7,799

DEEP RIVER TOWNSHIP
Arenac County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2007 and 2006

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
EXPENDITURES (CONT.):		
Zoning & Planning		
Salaries	\$ 2,375	\$ 4,425
Supplies and other costs	162	25
Total Zoning & Planning	<u>2,537</u>	<u>4,450</u>
Total Public Safety	8,107	12,249
PUBLIC WORKS:		
Highway, Streets and Bridges -		
Routine maintenance	0	17,907
Street Lighting -		
Utilities	897	887
Drain-at-large	<u>17,811</u>	<u>0</u>
Total Public Works	18,708	18,794
CULTURAL AND RECREATIONAL:		
Park -		
Salaries	0	425
Supplies and other costs	<u>502</u>	<u>1,088</u>
Total Cultural and Recreational	<u>502</u>	<u>1,513</u>
TOTAL EXPENDITURES	\$ <u>161,069</u>	\$ <u>156,506</u>

Quast, Janke and Company, P.C.

Certified Public Accountants

1010 N. JOHNSON STREET
BAY CITY, MICHIGAN 48708

Phone: (989) 892-4549

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*Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s*

December 5, 2007

Deep River Township
PO Box 440
Sterling, MI 48659

Ladies and Gentlemen:

As a regular part of our audit of the financial statements of the Township of Deep River for the year ended June 30, 2007, we have reviewed the Township's accounting procedures and internal controls surrounding the recording of accounting transactions. This letter presents comments and recommendations to strengthen these controls and increase administrative efficiency. These recommendations do not, of course, include all possible recommendations, but only those areas of potential improvement which came to our attention during our audit of the financial statements as of June 30, 2007.

Nothing came to our attention that would indicate any improper or illegal actions have been committed by Township officials.

RECOMMENDATIONS

1. In reviewing your budgets for the year ended June 30, 2007, we noticed some areas of your budgets and budgeting processes that are not in compliance with Public Act 621 of 1978 (the Uniform Budgeting and Accounting Act).
- A. Section 18(3) of Public Act 621 prohibits the Township from incurring expenditures against an account in excess of the amount appropriated. The following variations were noted:

<u>Fund</u>	<u>Total Budgeted</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund -			
Drain at Large	\$ 17,000	\$ 17,811	\$ 811
Transfer to Cemetery Fund	0	2,500	2,500

We suggest that the budget be reviewed periodically and amendments to the amounts appropriated be made prior to the expenditure of any funds that exceed the amount appropriated.

2. Disbursement of Tax Collections:

According to the Bulletin for Audits of Local Units of Government - Appendix B (MCL 211.43) units of over \$15,000,000 of state equalized valuation must distribute tax collections on hand within 10 business days after the 1st and 15th day of each month. The Township, by only making one distribution per month, was not in compliance with this requirement.

3. Separation of Accounting Records:

At the present time, the Township maintains one General Ledger that accounts for the activity of all funds maintained by the Township. Many times expenses of one fund are paid out of another fund and not posted to Due to and Due from accounts. This makes it very difficult to separate the activities of each fund. Steps need to be taken to establish a separate General Ledger for each fund.

4. Filing of Invoices:

The Township's invoices and supporting documentation for expenditures are filed in the Clerk's desk drawers and more than one year are filed together. We suggest that a separate filing of all invoices and other supporting documentation, and they be separated by year.

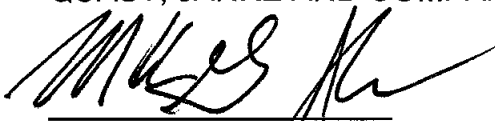
5. Substantiating Documentation:

In several instances, documentation to support expenditures could not be provided. All expenditures by the Township should be supported by some type of documentation, i.e.: invoices, expense vouchers, minutes of meetings indicating attendance, etc.

We wish to express our appreciation for the assistance extended to our staff by the officials and employees of the Township. If we can be of further assistance in these or any other matters, please call upon us.

Sincerely,

QUAST, JANKE AND COMPANY, C.P.A.'S, P.C.


Mark G. Janke, C.P.A.